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October 31, 1996

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EX PARTE

William F. Caton
Acting Secretary
Federal Communications Commission
Mail Stop 1170
1919 M Street, N.W., Room 222
Washington, D.C. 20554

RECEIVED

OCT 31 1996

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Dear Mr. Caton:

Re: Non-Accounting Safeguards, CC Docket No. 96-149

Today, Stan Moore, Senior Counsel, Pacific Telesis Legal Group, John T. Vernagus, Vice President, Consumer Marketing, Pacific Bell, Michael J. Yourshaw of Wiley, Rein & Fielding, and I met with Blair Levin, Chief of Staff to Chairman Reed Hundt, and Jackie Chorney, Special Assistant to the Chairman, to discuss issues summarized in the attachment, and reflected, with respect to telemessaging, in our comments in CC Docket No. 96-149. We are submitting two copies of this notice, in accordance with Section 1.206(a)(1) of the Commission's rules.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions.

Sincerely,



cc: Jackie Chorney
Blair Levin

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CC Docket No. 96-149 Ex Parte

- Joint Marketing
- Centralized Administrative Services
- Nondominant Status

Intent of Congress in Passing the Telecommunications Act of 1996

*“... to provide for a **pro-competitive, de-regulatory** national policy framework designed to accelerate rapidly private sector deployment of advanced telecommunications and information technologies and services to all Americans by opening all telecommunications markets to competition.”*

To Meet Congress' "Pro-Competitive, De-Regulatory" Goals the Commission Should Permit:

- **Pacific Bell and PBCOM to offer "one-stop shopping" and integrated packaging**
- **Pacific Telesis or its services subsidiary to provide centralized administrative services to all of its affiliates**

Pacific Bell Looks Forward to Joint Marketing PBCOM's Services with Pacific Bell's Services

- Value to Pacific Bell's customers
 - “One-stop shopping”
 - Responsive to customer requests
 - Less confusing for customers
- Value to Pacific Bell
 - Promotes customer satisfaction
 - Retains customers on Pacific Bell's services
 - Allows Pacific Bell to compete effectively

Joint Marketing — Section 272(g)(1)&(2)

- The Act permits PBCOM to market intraLATA and interLATA services
- The Act permits Pacific Bell to serve as a sales channel for its interLATA affiliate, PBCOM
- Pacific Bell and PBCOM can offer “one-stop shopping” and integrated packaging
- PBCOM will fairly compensate Pacific Bell for all joint marketing efforts

PBCOM Plans

- **Sales**
 - Pacific Bell/Nevada Bell joint marketing will be an important channel for PBCOM
 - PBCOM will also have its own sales channels and will utilize third party retail channels
- **Services Provisioning: IntraLATA**
 - PBCOM's state filings for authority in California and Nevada include requests for CLEC authority. The extent to which PBCOM will utilize that authority will depend importantly on Pacific Bell's and Nevada Bell's ability to market and sell "integrated packages" to meet the competition from major IECs
- **Services Provisioning: InterLATA**
 - PBCOM currently plans to provide interLATA services through a combination of the use of its own facilities (e.g., switches) and third party facilities of other carriers. We expect to use Sprint for nationwide and international carriage. In-region, we will consider options, including Sprint and Pacific Bell facilities pursuant to section 272(e)(4).

Pacific Bell Will Serve As a Sales Channel for Its InterLATA Affiliate, PBCOM

- Includes all marketing and sales-related activities
- Pacific Bell will comply with all CPNI requirements in marketing PBCOM's services
- Marketing and sales include, for example:
 - advertising
 - outbound calling to customers
 - offering both types of services on the same call
 - integrating packages of services

Pacific Bell's Joint Marketing Should Be Broadly Interpreted

- In order to provide best service to customers Pacific Bell must be able to do everything competitors can do to market and sell PBCOM's and Pacific Bell's services together
- Pacific Bell should be able to sell *all* services offered by PBCOM

Pacific Bell and PBCOM Can Offer One-Stop Shopping and Integrated Packaging

- This is essential to compete with other IECs that offer bundled services
- Promotes competition — as the Act intends
- Minimizes customer confusion from multiple contacts
- Increases economic efficiency — permits economies of scope

PBCOM Will Fairly Compensate Pacific Bell for All Joint Marketing Efforts

- **Terms of compensation will be consistent with federal and state affiliate transaction rules**
 - **Must be publicly filed and will be closely scrutinized by interested parties**
- **Subject to various audits — Commission(s), company auditors, and external auditors**
- **Requirement to maintain separate books will enable detection of inequities**

Provision of Administrative Services by the Holding Company

- Consolidation of administrative services can benefit consumers
- Section 272(b) does not apply to the holding company
- The provisions of the 1996 Act are sufficient to preclude cross-subsidy and discrimination

Consolidation of Administrative Services Can Benefit Consumers

The holding company or a services subsidiary can perform certain functions for all of its subsidiaries, including the BOC and a section 272 separate affiliate

- Finance and Accounting
- Legal Services
- Human Resources
- Marketing Communications
- Research and Development
- New Product Development
- Certain Procurement
- Management Information and Marketing Support Systems
- Real Estate Management
- Business Placement

By consolidating administrative services the corporation can realize economies of scope and scale and benefit consumers

Section 272(b) Does Not Apply to the Holding Company

- The four structural separation provisions of section 272(b) expressly relate only to the relationship between the separate affiliate (PBCOM) and the BOC
- If Congress had intended to separate the Holding Company, it would have been specific
- The central provision of administrative services is essential to efficient operations
- PBCOM's competitors, such as AT&T and MCI are permitted to provide centralized administrative services
- Under *Computer Inquiry II*, the BOC was permitted to provide certain "administrative services" to the separate affiliate

The Provisions of the 1996 Act Are Sufficient To Preclude Cross-Subsidy and Discrimination

- **Pacific Bell's books, records, and accounts are separate from PBCOM's**
- **Pacific Bell and PBCOM will have separate personnel**
 - **Obtaining services from the same company does not create shared employees**
- **Pacific Bell's assets will not guarantee PBCOM's credit**
 - **Any holding company guarantee of the affiliate's debt must be without recourse to the BOC's assets**
- **Transactions between Pacific Bell and PBCOM must be at arm's length and will be subject to the Commission's affiliate transactions accounting rules**

PBCOM Should Be Regulated As a Nondominant Carrier

- PBCOM will have zero initial market share and no market power
- Substitutable supply capacity exists -- customers can easily change providers if PBCOM's prices are not competitive
- Dominant regulation will harm competition
- The U.S. Department of Justice recommends: *"The Commission should not apply its dominant carrier regulations to BOC affiliates."*

SUMMARY

- Pacific Bell and PBCOM can offer “one-stop shopping” and integrated packages
- Pacific Telesis or a services subsidiary can provide administrative services to PBCOM
- PBCOM should be regulated as a nondominant carrier